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C O N F I D E N T I A L

SIPDIS

STATE PASS TO DEPT OF AGRICULTURE

E.O. 12958: DECL: 07/07/2018

TAGS: ECON EAGR EFIN POL

SUBJECT: TRADE MINISTER: WE CAN FUND PDS IN 2008 WITH A USD 2 BILLION SUPPLEMENTAL

REF: A. BAGHDAD 1480

1B. BAGHDAD 789

Classified By: Economic Minister Charles P. Ries for reasons 1.4 (b) and (d).

11. (C) SUMMARY: Trade Minister Abdul Falah al-Sudani told Emboffs July 1 that the Ministry of Trade (MoT) would be able to fund 90 percent of the Public Distribution System (PDS) for the remainder of 2008 with the USD 2 billion in supplemental appropriations Finance Minister Bayan Jabr indicated he would allocate for the program. Regarding plans to reform the PDS, Sudani said the MoT would likely means-test the list of PDS beneficiaries for 2009, but said nothing about monetizing benefits. Sudani was receptive to Emboffs' suggestion that he hire a public relations firm to help the MoT educate Iraqis about the reform plans. Iraqis are generally inured to the PDS functioning poorly, but this year PDS beneficiaries may feel more acutely any marginal reduction in rations, with rising costs for non-PDS foods consuming a greater share of Iraqis' income. We will continue to encourage the MoT to forge ahead with PDS reform, including a public education plan, to preempt a politically costly end-of-the-year dustup. END SUMMARY.

12. (C) Trade Minister Sudani told Emboffs July 1 that the MoT would be able to fund the PDS for the remainder of 2008 with the USD 2 billion in supplemental appropriations Finance Minister Bayan Jabr indicated he would allocate for the program. (NOTE: Sudani had requested USD 4 billion in supplemental funds for the PDS; the MoT had obligated by June 30 all of the MoT's roughly USD 3.3 billion 2008 budget allocation for the program (reftel A). END NOTE) Sudani said USD 2 billion, managed properly, would be sufficient to purchase and supply 90 percent of the program's projected demand, despite increased costs for commodities and shipping. "The people will accept a 10 percent reduction in their rations," he said confidently.

13. (C) Sudani noted that the MoT still had roughly USD 500 million remaining from the line item in its 2008 budget allocation originally destined for domestic purchases of commodities. The MoT had intended to purchase 1.5 million metric tons (MT) of wheat from Iraqi farmers, but diminished crop yields resulting from Iraq's drought means it will only buy roughly 600,000 MT domestically. "But don't tell Jabr we have this money. He doesn't know," Sudani said smiling sheepishly. (NOTE: The Treasury Attaché notes that FinMin Jabr does know the MoT has unspent funds, but he is unsure of the amount. Jabr's reluctance to allocate more to the PDS is largely due to International Monetary Fund concerns about the fiscal ramifications of increased GOI current spending in the 2008 supplemental. Jabr said the MoT would need to provide the Council of Ministers a more detailed description of its PDS reform plans (reported reftels A and B) in order to receive even the USD 2 billion. END NOTE.)

14. (C) Sudani said, regarding the reform plans, that implementation would take time and be difficult. He expressed confidence that the MoT would means-test the list of PDS beneficiaries for 2009, but said nothing about monetization of benefits. Emboffs stressed that a well crafted public education campaign regarding the reform plans would be essential to allay beneficiaries' fears and to advertise to the private sector the opportunity for it to import and supply food agents with PDS commodities. Sudani agreed with Emboffs that the MoT should consider contracting the services of a private sector public relations firm to assist with such a campaign and asked if we could provide him with a list of reputable outfits. Post intends to identify U.S., regional, and Iraqi firms that could do the work and provide a list of names to the MoT.

15. (C) COMMENT: Iraqis are generally inured to the PDS functioning poorly, so Sudani has some basis for his belief that PDS beneficiaries will quietly tolerate a 10 percent reduction in rations in the second half of 2008. But this year beneficiaries may feel more acutely such a marginal reduction, with rising costs for non-PDS foods, e.g., fresh produce and meats, consuming a greater share of Iraqis' income. As a result, the GOI may, as it did last November, find itself under pressure to allocate more to the program in the face of public complaints and pressure from some corners of the Council of Representatives. We will encourage the MoT to forge ahead with its PDS reform plans, and to educate the public about them in advance, in order to preempt another politically costly end-of-the-year dustup.

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